

**REPORT ON AUDIT
OF
PORTLAND AREA OFFICE
BUREAU OF INDIAN AFFAIRS
DEPARTMENT OF THE INTERIOR
FOR THE FISCAL YEAR ENDED JUNE 30, 1954**

**UNITED STATES GENERAL ACCOUNTING OFFICE
DIVISION OF AUDITS**

TO THE READER:

***SEVERAL PAGES OF THE FOLLOWING MATERIAL
MAY BE ILLEGIBLE BECAUSE OF THE POOR
QUALITY OF THE COPY SUBMITTED FOR
MICROFILMING***

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON 25, D. C.

DIVISION OF AUDITS

B-118601

JUL 6 1955

Mr. Glenn L. Emmons
Commissioner, Bureau of Indian Affairs
Department of the Interior

Dear Mr. Emmons:

Herewith is a copy of our report on the audit of the Portland, Oregon, Area Office, Bureau of Indian Affairs, for fiscal year 1954. During the audit we reviewed the organization, procedures, and operations at the locations visited. Our observations on deficiencies and weaknesses in procedures and internal control and on certain other matters are set forth in the accompanying report.

We wish to acknowledge the cooperation given to our representatives during the audit. Our findings were reviewed with responsible area officials during the audit. We will be happy to discuss these comments in greater detail with you or members of your organization. Your comments and advice as to action taken on the matters presented herein will be appreciated.

Sincerely yours,

for E. H. Morse, Jr.
Robert L. Long,
Director of Audits

Enclosure

C o n t e n t s

	<u>Page</u>
Irrigation project construction assessments against non-Indian-owned lands not recorded or collected	1
Area office engineering expenses not included in irrigation project construction costs	2
Delivery of water without prior payment of annual assessment	3
Reimbursable resources management appropriations improperly used	4
Inadequate operation and maintenance assessment rates	7
Inconsistent bases for irrigation project operation and maintenance assessments	8
Collections of reimbursable irrigation operation and maintenance assessments not properly deposited	11
Inadequate evidence supporting exclusion of lands from operation and maintenance assessments	13
Irrigable acreage not irrigated	14
Other irrigation deficiencies	15
Free hospital and medical services furnished to Indians	17
Deficiencies in public health contracts	18
Closing hospital at Colville Agency	19
Inadequate justification for school contracts	20
Deficiencies in credit activities, Northern Idaho Agency	22
Administrative audit of scale books and timber sales contracts not made	24
Undue delay in authorizing timber cutting	24
Timber resources ledgers not maintained	25
Excessive backlog of land transactions	25
Total rental due on tribal lease not determined	27
Tribal lands not leased	28

	<u>Page</u>
Use of Government vehicles	29
Reports on occupancy of Government-owned quarters not made	29
Transportation requests not properly accounted for	30
Deficiencies relating to accounts receivable	31
Inadequate procedures for withdrawals from individual Indian money accounts	32
Inactive individual Indian money and special deposit accounts not closed	33
Miscellaneous deficiencies in individual Indian money accounts	35
Inconsistency in budgeting funds for storage reservoirs	35
Discrepancies in employees' bonds	36

REPORT ON AUDIT
OF
PORTLAND AREA OFFICE
BUREAU OF INDIAN AFFAIRS
DEPARTMENT OF THE INTERIOR
FOR THE FISCAL YEAR ENDED JUNE 30, 1954

1. Irrigation project construction assessments
against non-Indian-owned lands not recorded
or collected

The Code of Federal Regulations, title 25, part 141, prescribes that construction assessments shall be made against non-Indian-owned lands under constructed works on Indian irrigation projects. These assessments have not been made at the Colville Agency.

Area office officials informed us that no surveys have been made to determine the acreage under constructed works on which the construction assessments could be computed, because water is delivered on an application basis. We were informed further that a survey is being made on the Monse unit, and that when this survey is completed the construction assessments will be made. The survey for the Nespelem unit is being deferred pending decisions regarding additional construction. Construction assessments on the Hall Creek-Twin Lakes unit has been deferred pending a policy determination by the Washington office to turn the operation of the unit over to the water users.

The Colville irrigation units have been in operation for many years. We believe that the construction assessments should have

been made previously, based on estimated acreage under constructed works, so that the Government could recover a part of the construction cost. We recommend, therefore, that the Area Director take the necessary action to assess non-Indian-owned lands on the Colville Agency irrigation projects for construction costs in accordance with the provisions of 25 C.F.R., part 141.

2. Area office engineering expenses not included in irrigation project construction costs

The cost of constructing irrigation projects is usually required by law to be reimbursed to the Treasury. We found, however, that the personal services costs incurred at the area office in performing office engineering functions related directly to the construction of irrigation projects are not included in construction costs. In fiscal year 1954 the area office had four employees with aggregate annual salaries of about \$27,000 assigned to this function. This practice is followed in compliance with instructions contained in a memorandum dated April 20, 1953, from the central office. This memorandum provides that the salaries and expenses of central and area office engineering and administrative personnel shall not be included as part of the cost of construction of irrigation projects, but shall be accounted for as nonreimbursable expenses.

We believe that the part of salaries and expenses of area office engineering personnel directly connected with the construction of irrigation projects is properly for inclusion in the cost of construction. We recommend, therefore, that the Commissioner consider issuing instructions to charge these costs to the benefiting

irrigation projects, and that such costs be capitalized as reimbursable costs. We believe that this practice is necessary to determine the total cost of an irrigation project and is especially significant on those projects where construction costs are required by law to be reimbursed to the Treasury.

3. Delivery of water without prior payment of annual assessment

Water was delivered to non-Indian water users on the Fort Hall Project without payment of the irrigation operation and maintenance assessments having been made by the water users as required by Federal regulations.

The Code of Federal Regulations (25 C.F.R. 130.33b) provides that no water shall be delivered to non-Indian water users at the Fort Hall Project after April 1 until 50 percent of the annual assessment for operation and maintenance shall have been paid. The regulations further provide that no water shall be delivered after July 1 unless the total assessment is paid at that time. Procedures in effect at Fort Hall, however, permitted water to be delivered after April 1 without the payment of at least 50 percent of the assessment. Water is not delivered after June 30, however, until the total assessment is paid. Our audit disclosed that \$37,724 of about \$58,000 assessed against non-Indian-owned lands for the 1954 irrigation season was unpaid at April 30, 1954.

To provide for prompt payment of operation and maintenance assessments, we recommend that the Area Director revise the existing procedures for the delivery of water to non-Indians on the Fort Hall Irrigation Project to comply with the Code of Federal Regulations.

4. Reimbursable resources management appropriations
improperly used

Reimbursable resources management appropriated funds allocated during fiscal years 1953 and 1954 for the operation and maintenance of the Monse unit of the Colville Irrigation Project and the Modoc Point unit of the Klamath Irrigation Project were used to benefit non-Indian water users and for costs not recovered through collection of operation and maintenance assessments. These funds were justified in hearings before the Congress as being available only to pay the operation and maintenance assessments of those Indians who are financially unable to make such payments.

Our review of these projects showed that the allotments to the two units were used in the following manner:

	Monse unit, fiscal year		Modoc Point unit, fiscal year
	1953	1954	1954
Obligated allotment of reimbursable operation and maintenance funds	\$7,082	\$6,652	\$5,892 ^a
Amount of reimbursable operation and maintenance funds required to cover unpaid operation and maintenance assessments of Indians	<u>959^b</u>	<u>969^c</u>	<u>3,162^d</u>
Amount used for purposes other than for unpaid operation and maintenance assessments of Indians benefiting both Indians and non-Indians	<u>\$6,123</u>	<u>\$5,683</u>	<u>\$2,730</u>

^aDoes not include an \$8,000 emergency allotment to rehabilitate the irrigation system. Since non-Indian-owned or -operated lands are checkerboarded throughout the system, this allotment also benefits both Indians and non-Indians.

^bThe total amount of Indian-owned and -operated land on which assessments were not paid in calendar year 1952, of 191.82 acres, multiplied by the assessment rate during the 1952 irrigation season of \$5 an acre (25 C.F.R. 130.9).

^cThe total amount of Indian-owned and -operated land on which assessments were not paid in calendar year 1953, of 193.72 acres, multiplied by the assessment rate during the 1953 irrigation season of \$5 an acre (25 C.F.R. 130.9).

^dThe total amount of Indian-owned and -operated land on which assessments were not paid in calendar year 1953, of 1,053.86 acres, multiplied by the assessment rate during the 1953 irrigation season of \$3 an acre (25 C.F.R. 130.47).

Area office officials informed us that the budget requests for resources management funds for these two irrigation project units were based on the difference between estimated operation and maintenance costs and estimated collections of operation and maintenance assessments.

To prevent future allotments of resources management appropriations being used to benefit non-Indians and Indians who are financially able to pay their assessments, we recommend that the Area Director take the following action:

1. Revise current assessment rates so that these assessments are adequate to pay all operation and maintenance costs of the project. (See our recommendation on page 7 on this point.)
2. Allot resources management funds to individual projects only to pay the assessment on acreage owned and operated by Indians whose assessment has been officially deferred. The allotment would be the amount arrived at by multiplying this acreage by the assessment rate.
3. Base future requests for resources management funds only on the acreage owned and operated by Indians for which the assessment is expected to be deferred. The acreage so determined should be based in part on previous years' experience.

5. Inadequate operation and maintenance assessment rates

In our review for fiscal year 1954 we determined that inadequate operation and maintenance charges are assessed at the Modoc Point unit of the Klamath Project, at the Colville Project, and at the Warm Springs Project.

Our review disclosed the following:

	Operation and maintenance cost per acre of constructed works	Operation and maintenance assessment rate per acre
Klamath Project:		
Modoc unit	\$ 5.59	\$3.00 ^a
Colville Project:		
Nespelem unit	4.62	1.75 ^b
Hall Creek-Twin Lakes unit	4.61	2.00 ^b
Monse unit	13.43	5.00 ^c
Warm Springs Project	8.31	2.00 ^a

^aIrrigable acres.

^bApplication basis.

^cIrrigable acres basis for patent-in-fee lands, application basis for trust lands.

As a result of our suggestions to the area irrigation engineer, the assessment rate is being increased to \$3.85 an acre at the Modoc Point unit to cover the anticipated expenditures for the 1955 calendar year. We were informed that consideration is being given to the possibility of turning the Warm Springs Project over to the tribe for operation and maintenance. We were informed also that if this were done the Government would be released from further costs on the project and no further assessments would be made by the Government. In regard to increasing the assessments at the

Nespelem unit, we were informed that rates will not be increased until a decision is reached by the landowners as to the construction cost of the Mill Creek Reservoir. We were informed also that if the reservoir is constructed the irrigable acreage will be 1,675 acres compared with the 500 acres now irrigable from the available water supply.

Since under existing area office procedures the effect of inadequate assessment rates is to increase expenditures from the resources management appropriation, we recommend that the Area Director take action to increase these assessment rates.

We believe that the assumption of operation and maintenance expenses by the Warm Springs Tribe should not relieve the Bureau of the responsibility for determining whether assessment rates are adequate to provide for proper maintenance of the Warm Springs Project. Furthermore, we believe that the possibility of new construction at the Nespelem unit should not preclude the correction of assessment rates. Accordingly, we recommend that the Area Director take the necessary action to insure that assessment rates are commensurate with the operation and maintenance costs on all projects under the jurisdiction of the Portland Area Office.

6. Inconsistent bases for irrigation project operation and maintenance assessments

In our review of operation and maintenance assessments on the Colville Irrigation Project and the Toppenish-Simcoe unit of the Wapato Project, we noted that the acres assessed were significantly less than the acreage under constructed works, as follows:

	Acres under constructed works	Acres assessed
Colville Project:		
Nespelem unit	1,674	344
Monse unit	698	632
Hall Creek-Twin Lakes unit	<u>971</u>	<u>157</u>
Total Colville	<u>3,343</u>	<u>1,133</u>
Toppenish-Simcoe unit	<u>2,855</u>	<u>1,719</u>

These differences occurred because of the following provisions in the Code of Federal Regulations:

- Colville --25 C.F.R. 130.9(a)--operation and maintenance assessments made only on lands to which water can be delivered and on which application for water is made on Nespelem and Hall Creek-Twin Lakes units.
- 25 C.F.R. 130.9(b)--operation and maintenance assessments made on all patent-infee lands on which there are water contracts, and only to trust lands for which application for water has been made on Monse unit.
- Toppenish-Simcoe--25 C.F.R. 130.92(b)--operation and maintenance assessments on certain Indian trust lands are made only upon that land for which application is made for water, or on which water had been charged during the preceding year on the project books.

We noted that assessments at other projects are usually made on the basis of all lands to which water can be delivered. We were not able to ascertain why assessments are handled differently at these projects.

Officials of the area office informed us that action is being taken to change the basis of assessment at the Monse unit to all lands to which water can be delivered. These officials also informed us that changes in the basis of assessment on the Nespelem

and Toppenish-Simcoe units are being deferred pending decisions regarding the authorization for new construction in these areas.

The Hall Creek-Twin Lakes unit is being turned over to the water users for operation and maintenance, and we were told that since no more assessments will be made by the Government it is not necessary to change the assessment basis.

We believe that a uniform basis of assessment should be adopted on all irrigation projects. Furthermore, we believe that the assessment basis should be all lands to which water can be beneficially delivered, because this basis provides for the most equitable distribution of operating costs to the benefiting parties. We believe that the possibility of additional construction which would affect the Nespelem or Toppenish-Simcoe units should not preclude changing the operation and maintenance assessments from an application basis to an irrigable acres basis. Furthermore, we believe that turning the Hall Creek-Twin Lakes unit over to the water users should not relieve the Bureau of the responsibility for ascertaining that sufficient funds are received from assessments to provide for the proper maintenance of the system. Accordingly, we recommend that the Commissioner issue regulations for these units providing that the assessments be based on all lands to which water can be beneficially delivered. The assessment rate should be adequate to cover the cost of operating and maintaining the projects concerned.

7. Collections of reimbursable irrigation operation and maintenance assessments not properly deposited

Our review of irrigation operation and maintenance collections and procedures for accounting for such collections at several projects in the Portland area disclosed that \$2,163 required by law (25 U.S.C. 385) to be reimbursed to the United States Government was deposited by the Bureau to the applicable project trust fund, receipt symbol 145240. The irrigation projects involved and the amounts, by project, improperly accounted for are as follows:

Lummi Diking Project	\$ 519
Colville Irrigation Project:	
Nespelem unit	118
Klamath Irrigation Project:	
Modoc Point unit	1,394
Warm Springs Project	<u>132</u>
Total	<u>\$2,163</u>

The primary reason for such amounts being improperly deposited was that the accounting procedures followed by the Portland Area Office do not provide for a precise determination of the amounts collected which had been previously financed from reimbursable Treasury appropriations.

Procedures for accounting for operation and maintenance assessments and collections in effect at the Portland Area Office at the time of our audit were as follows:

a. Annual operation and maintenance assessment:

Debit: 136.5 --Accounts Receivable, Operation and Maintenance Charges, Indian Lands
Credit: 550.1--Operation and Maintenance--Irrigation, Income.

- b. Determination that Indian is unable to pay, supported by proper certification:

No entry made.

- c. Collection of assessment:

Debit: 131 --Appropriated Funds with Disbursing Officer, symbol 145240

Credit: 136.5--Accounts Receivable, Operation and Maintenance Charges, Indian Lands

Under the foregoing procedures no distinction of current and deferred accounts receivable is made.

We believe that the foregoing accounting procedures followed in the area office are not in accordance with the use intended by the Indian Affairs Manual for Account 128.2, Deferred Receivables, Operation and Maintenance Charges. The description of this account (vol. IV, part II, sec. 502.04B(2)) indicates that a different procedure in accounting for irrigation operation and maintenance assessments is contemplated, but the manual does not provide any pro forma accounting entries illustrating the use of this account for such purposes.

Therefore, we recommend that the Commissioner provide that the following procedures be prescribed in the manual to account for irrigation operation and maintenance assessments and collections.

- a. Annual operation and maintenance assessment--same as (a) above.
- b. When there is an official determination that an Indian is unable to pay the operation and maintenance assessment and reimbursable appropriations are used to finance the assessment:

Debit Account 128.2 --Deferred Receivables, Operation and Maintenance Charges

Credit Account 136.5--Accounts Receivable, Operation and Maintenance Charges, Indian Lands

- c. When deferred operation and maintenance assessments are paid:

Debit Account 204.2 --Funds Returned to the U.S. Treasury, Operation and Maintenance Repayments

Credit Account 128.2--Deferred Receivables, Operation and Maintenance Charges

We believe these procedures will correct the present deficiencies in accounting and will insure compliance with the requirements of law. Moreover to properly adjust the receipt accounts, we recommend that the Area Director transfer the \$2,163 of erroneously deposited collections from the several project trust funds to receipt symbol 143558, Recoveries on Account of Reimbursable Maintenance Charges.

8. Inadequate evidence supporting exclusion of lands from operation and maintenance assessments

The irrigation manager of the Fort Hall Project has authorized the nonassessment of operation and maintenance charges to certain lands in the project classified as irrigable, because canals are not extended sufficiently to permit the delivery of water. The exclusion of these lands from the annual assessment was not

evidenced by adequate written authorization. The exclusion often was the result of oral instructions given by the irrigation manager to the fiscal accounting clerk. Because the authority of the irrigation manager to exclude areas from assessment was not clearly defined, we brought the matter to the attention of area office officials.

The Code of Federal Regulations, title 25, section 130.32, provides that assessments be made only on lands to which water can be delivered, and we were informed that only the irrigation manager would be capable of determining which lands to assess. Area office officials informed us that written authorizations were not considered necessary for exempting from assessment lands classified as irrigable to which water cannot be delivered.

We believe that the exclusion of certain lands from operation and maintenance assessments without written authorization does not afford the Bureau adequate administrative control over project revenues. The situation is analogous to the write-off of accounts receivable by oral instructions. Accordingly, we recommend that the Area Director issue instructions providing that lands classified as irrigable shall not be exempted from operation and maintenance assessment without a written authorization approved by the agency superintendent.

9. Irrigable acreage not irrigated

We noted that 18,500 acres of Indian-owned and -operated land on the Fort Hall Irrigation Project considered irrigable in calendar year 1953 were not actually irrigated or farmed. One of the

reasons for this condition, according to operation and maintenance data sheets prepared by the agency, is the failure of heirs of Indian allotments to agree on a plan of operation. We were unable to determine how much of the 18,500 acres were not irrigated for this reason. We noted, however, that resources management appropriations were used to pay operation and maintenance charges on Indian-owned land of the Fort Hall Project in accordance with the act of March 1, 1907 (34 Stat. 1024-25). Section 171.7, 25 C.F.R., authorizes an agency superintendent to grant leases covering inherited Indian lands when the heirs or devisees of such lands have been determined and the lands are not in use by any of the heirs or devisees and the heirs or devisees have not been able within a period of 3 months or longer to agree upon a lease or permit of the land by reason of the number of heirs or devisees or for any other reason.

The Superintendent of the Fort Hall Agency has been instructed by the Area Director to apply this regulation, whenever possible, in order to reduce the Government support of the project and to further the welfare of the Indians.

10. Other irrigation deficiencies

In our review of the Portland area irrigation activities, we noted the following practices which are inconsistent with regulations or sound administrative procedures.

a. Regulations have not been issued to govern the distribution of water at the Klamath Irrigation Project.

b. Water was used for watering stock during the nonirrigation season at the Warm Springs Project, although regulations have not

been issued providing for it, and a determination had not been made as to whether costs are incurred which would justify an additional assessment for the extra use.

c. Liens against Indian trust property for reimbursable construction costs of the Fort Hall Project have not been consistently recited in the patent or instrument issued by the Bureau, as required by 25 C.F.R. 151.1.

d. Lessees at the Fort Hall Project who leased land from Indians without having the lease approved by the agency and who paid the annual operation and maintenance assessment were delivered water despite the fact that the lease had not been obtained through proper channels.

The above deficiencies were brought to the attention of officials of the area and agency offices, and we were informed that corrective action would be taken.

11. Free hospital and medical services
furnished to Indians

The Portland Area Office has outlined its policy and procedures for granting free hospital and medical services to Indians in Field Memorandum No. 365, issued April 14, 1954. Although the memorandum specifies the conditions where Indians are eligible for free hospital and medical services, it does not require that a record be maintained of the findings in each case to support the determination of eligibility.

The authorizations reviewed by us at the Northern Idaho Agency were not supported by a record showing the basis for determining that the Indians were eligible for free services. Our review at the Colville Agency showed that the determination of the Indians' ability to pay for services was not being made, nor were any fees collected from them during fiscal year 1954.

We recommend that the Area Director take action to provide that each authorization issued for free hospital and medical services to Indians be supported by a record of the basis for determining that the Indian is eligible for free services. The record should include such information as tribal membership, degree of Indian blood, residence, and financial status. A case record of that nature will provide information which will enable representatives of your office and the area office to determine how well superintendents of agencies are administering this phase of your program. A determination would be extremely difficult if not impossible under present procedure.

We believe that a procedure for documenting the basis of determinations of eligibility of Indians for free services should be

established. The Acting Area Director informed us that such a record form had been drawn up for use at the Yakima Agency and that the use of the form would be extended to other agencies in the Portland area.

12. Deficiencies in public health contracts

Several contracts negotiated by the Portland area under authority of the act of June 4, 1936 (25 U.S.C. 452), provide for financial assistance to local health departments in furnishing public health services to Indians in the Portland area. Some of these contracts were not in the form suggested by the Indian Affairs Manual (vol. VI, part III, ch. 11, exhibits A and B). Specifically, these contracts did not include provisions for annual renewals, and were not supported by required basic data, including financial data.

Recent public health service contracts negotiated in the Portland area contained the total budget and source of fund data required in exhibit B. We believe, however, that this data was not adequate to establish need as required by the Indian Affairs Manual (vol. VI, part III, sec. 1102.01F). This section stipulates as one of the conditions for giving financial assistance that the contractor is providing from taxes the maximum amount permitted by law for health purposes, and still lacks funds to maintain a well-balanced health program for all citizens. Elements of estimated costs comprising the total budget were not given, nor were the budget estimates detailed to show the cost of providing additional services for Indians. Furthermore, local tax bases, tax rates, and citations to tax laws were not reported.

In addition, the public health service contracts of the Portland area did not contain a provision permitting examination of contractors' records, so that information submitted could be confirmed when considered necessary.

We recommend that the Bureau revise existing public health service contracts to conform to requirements of the Indian Affairs Manual and that contractors be required to submit with the original contract and each annual renewal financial data which definitely substantiates need, such as maximum and actual tax rates, elements of cost, and separate cost estimates for providing additional services for Indians. We have advised the Area Director of our views and we were told that corrective action would be taken.

13. Closing hospital at Colville Agency

During fiscal year 1954, operation of the Colville Hospital required a staff of 22 employees to handle an average occupancy of about 11 patients a day. The daily cost per patient was \$30.65. In fiscal year 1953 the average occupancy was over 19 patients a day at a daily cost of \$19.77 per patient. Portland Area Office officials estimated that the average occupancy of the hospital in fiscal year 1955 will be about 10 patients at a daily cost of \$30.60 per patient.

According to Portland Area Field Memorandum No. 365, issued April 14, 1954, it is the policy of the Bureau of Indian Affairs not to directly operate a health facility when there are similar non-Bureau facilities with sufficient beds. A report to the Portland Area Director on May 13, 1954, based on a survey by Bureau of Indian Affairs representatives, shows that non-Bureau facilities

are available to Indians of the Colville Agency. Furthermore, the report shows that average patient-day costs at nearby hospitals which provide services to Indians would be about \$22 at the Coulee Dam Hospital and about \$15.50 at the Omak Hospital. These hospitals are located 15 miles and 39 miles, respectively, from the agency headquarters where the Bureau hospital is located.

Because of materially increased patient-day costs at the Colville Agency Hospital and the indication that equivalent non-Bureau facilities are available at less cost, we pointed out to the Area Director that closure of the hospital should result in savings to the Government.

The Acting Area Director called attention to the act of August 5, 1954 (68 Stat. 674), providing for transfer of BIA hospitals and health facilities to the United States Public Health Service as of July 1, 1955, and, further, prohibiting closure of hospitals now in operation for a specific tribe before July 1, 1956, without consent of the governing body of the tribe or its organized council.

Bureau efforts to obtain tribal approval for closure of the Colville Hospital have not been successful. We recommend, however, in the interest of economy, that these efforts be continued. Furthermore, we believe that assimilation of the Colville Indians will be accomplished more readily when these Indians learn to use and rely on facilities used by other citizens.

14. Inadequate justification for school contracts

Annual contracts of the Portland area which provide for financial assistance to the States of Oregon and Washington in

furnishing education to Indian children under authority of the act of June 4, 1936 (25 U.S.C. 452), include, in addition to amounts for school support, amounts necessary to pay the annual installments plus interest on school construction loans made by the Government to school districts as authorized by various acts of the Congress. For example, the 1953-54 school year contracts provided the following repayment amounts:

<u>Contract</u>	<u>School district</u>		<u>Amount</u>	<u>Loan authority</u>
14-20-500-108 State of Oregon	Klamath	Principal	\$5,000.00	Act of August 19, 1949 (63 Stat. 621)
		Interest	<u>4,050.00</u>	
			<u>\$9,050.00</u>	
14-20-500-109 State of Washington	Marysville	Principal	\$1,266.67	Act of June 7, 1935 (49 Stat. 329)
		Interest	<u>532.00</u>	
			<u>\$1,798.67</u>	
	Queets- Clearwater	Principal	\$ 333.33	Act of June 7, 1935 (49 Stat. 330)
		Interest	<u>160.00</u>	
			<u>\$ 493.33</u>	
	White Swan	Principal	\$1,666.67	Act of June 7, 1935 (49 Stat. 330)
		Interest	<u>700.00</u>	
			<u>\$2,366.67</u>	
	Moclips- Aloha	Principal	\$2,933.33	Act of June 30, 1947 (61 Stat. 221)
		Interest	<u>2,376.00</u>	
			<u>\$5,309.33</u>	

The foregoing amounts are deducted to arrive at the net amounts to be paid the states for school support in accordance with instructions in the Indian Affairs Manual (vol. VI, part II, sec. 302.11). The net result is that the borrowers are accomplishing repayment of their loans by receiving equivalent financial assistance from the Bureau of Indian Affairs.

The Code of Federal Regulations (25 C.F.R. 46.10) and the Indian Affairs Manual (vol. VI, part II, sec. 302.10) require

submission of school budgets. The manual specifies that budgets be itemized to show cash on hand, income by sources, and proposed expenditures by categories. Furthermore, section 302.04 of the manual specifies that one of the factors to establish eligibility for assistance is that a school district levies school taxes at a rate not less than the average for all districts in the state.

We did not find any evidence in the files of the Portland area that the Oregon and Washington school districts receiving equivalent financial assistance from the Portland area to repay their school construction loans had submitted construction budget and tax data to substantiate need for that assistance. Accordingly, we recommend that in the future the Area Director require schools to submit appropriate information to justify requests for assistance to repay those loans.

15. Deficiencies in credit activities,
Northern Idaho Agency

In our review of the Northern Idaho Agency, we found the following deficiencies in the loan activities.

a. Nez Perce tribal fund loans.

- (1) As of June 30, 1954, there were outstanding loans of \$103,135, and installment payments amounting to \$40,684 were delinquent on 59 loans. The total unpaid balance of 32 of these loans was delinquent at June 30, 1954, and several had been delinquent for over 4 years.
- (2) The Tribal Council approves loans from the tribal funds subject to approval of the agency superintendent. Six of the tribal council members had delinquent loans showing unpaid balances of \$5,930 on June 30, 1954, or 14 percent of the total delinquent loans.
- (3) Two tribal employees and two part-time BIA employees were delinquent in the payment of their loans as of June 30, 1954. Follow-up collection action had not

been taken on these loans at the conclusion of our field audit work in October 1954.

- (4) We found a number of loans for which mortgages had not been obtained on the property purchased with proceeds of loans. Also, no insurance covered the property as provided by the Indian Affairs Manual.

- (5) Minutes are not kept of loan board meetings.

b. Repayment cattle pool.

- (1) The Agricultural Extension Agent at Northern Idaho Agency informed the area office on September 10, 1954, that for 27 out of 34 cattle loans mortgages had not been obtained. Eight of these loans outstanding at June 30, 1954, were delinquent, two of which were due from council members. The estimated value of the cattle covered by the delinquent loans was about \$4,000.

c. Educational loans.

- (1) Six educational loans having unpaid balances of \$873 were delinquent in October 1954. Three of these loans have been delinquent since 1942.

These deficiencies were brought to the attention of the Area Director, and we were informed that corrective action would be taken. An area accountant was sent to the agency to investigate the entire situation. We were informed, however, that the credit standing of borrowers is rarely investigated in tribal lending operations because regulations do not require it. In most instances Indians have not established a credit rating in the community and the group granting the loans consider that the group is sufficiently acquainted with the applicants.

In view of the serious delinquency situation on loans at the Northern Idaho Agency, we recommend that the Area Director prescribe more stringent policies for making and protecting loans, including an investigation of the applicant's credit standing. We recommend further that a vigorous program of obtaining settlements

be followed. We suggest also that the benefits of a good loan management program be presented to the Nez Perce Tribal Council and Tribal Loan Board.

16. Administrative audit of scale books and timber sales contracts not made

Charges for timber sold under contract are computed from data recorded in scale books by Bureau employees. At some reservations check scalers are employed. Area officials advised us that independent checks by other Bureau employees of scale and timber cut computations have not been made in the past 9 or 10 years. Officials of the area office told us also that personnel have not been available to perform an independent audit of the scale books and timber contracts, although such an audit was considered highly desirable.

Clerical and other errors may go unchecked when records are not subject to regular audit. Accordingly, we recommend that the Area Director provide that an independent verification be required, on a selective basis, to compare and check computations in the scale books for timber sales contracts at each reservation. We recommend also that a full program of check scaling be instituted throughout the area.

17. Undue delay in authorizing timber cutting

A sales program for the Nine Mile logging unit was formulated by the Colville Indian Agency and submitted for approval on December 21, 1953, to the Washington office. The program was approved by the Washington office on May 14, 1954, but the agency was instructed not to award timber sales contracts until such time as a

policy involving the issuance of patents in fee to trust allotments was formulated. As of December 1, 1954, this policy matter has not been settled and the sales program has not become operative.

To provide revenue to the tribe, we recommend that action be taken to resolve this policy matter in order that the agency may open the logging unit for cutting and sale.

18. Timber resources ledgers not maintained

The Indian Affairs Manual (vol. V, part III, sec. 204.03) prescribes that a perpetual inventory record of timber resources will be maintained on a current basis. In our review we found that a timber resources ledger is not being maintained for the timber on the Spokane Indian Reservation. A ledger of this type is essential for an effective timber management program.

We recommend that the Area Director require that a timber resources ledger be established and maintained on a current basis for the Spokane Indian Reservation and at other locations in the area where it is not being maintained in order that a perpetual inventory may be kept for the information and guidance of management. Officials of the agency and area office told us that a timber resources ledger would be established and maintained for the Spokane Indian Reservation by January 1955.

19. Excessive backlog of land transactions

As of July 1, 1954, the Portland area had a backlog of over 2,200 land transaction cases of various types which area office officials estimated would require about 3,300 man-days to handle. This is equivalent to almost 13 man-years of work. In addition, area office officials estimated that a total of 17 man-years may

be required to bring land ownership records up to date at four agency offices. The backlog consists primarily of applications for lease or sale of the land and probate cases. The extended delay in processing these applications results in at least temporary loss of revenue to the Indians.

Additional funds for this work were allocated to the Portland area in fiscal year 1955. The budget officer further informed us that requests for fiscal year 1956 funds include amounts to provide the staff that the area land officer estimates is needed to overcome the backlog. The area land officer believes that, with the proposed staff, the land transactions activity in the Portland area would be on a current basis in 2 to 3 years.

In addition to its efforts to obtain funds to overcome the serious backlog of land transactions in the Portland area, we recommend that the Commissioner have a review made of the current land transaction procedures and policies for the purpose of determining whether they can be simplified and the number of man-days required to overcome the backlog reduced.

20. Total rental due on tribal lease not determined

Contract No. I-18-ind-3110 provides for leasing a quarry owned by the Nez Perce Tribe, Northern Idaho Agency. The royalty to be paid to the Tribe under the terms of the contract is 10 percent of the net amount of output of rock or stone at the mine. This amount is to be ascertained by deducting from gross amount the cost of transportation and treatment necessary for the sale; the royalty to be not less than 5 cents a ton of the rock or stone produced at the mine, or not less than 5 cents a cubic foot for cut stone. Technical supervision of the contract, including the determination of royalties due and paid, is performed by the Geological Survey as authorized by 25 C.F.R. 186.1(b).

We noted that throughout the term of the contract royalty payments have been at the rate of 5 cents a ton. Further examination disclosed that the Geological Survey has been reviewing and approving the contractor's monthly reports on the basis of tonnage produced only.

The Geological Survey reported that no objections have ever been raised to the 5-cent rate. The Survey agreed, however, in their next inspection to get an accurate account of the expenses contemplated by the contract, and if findings warrant, to base royalties for the remainder of the contract on the amount of the product for market.

We believe that under the terms of the contract the Geological Survey is required to base its inspections on the net amount of output so that a determination may be made whether the application of the 10 percent provision would furnish a greater return to the

Tribe than the 5-cent rate. Accordingly, we recommend that the Commissioner of Indian Affairs take the necessary action to insure that the terms of the contract are adequately supervised by Geological Survey.

We recommend also that the contract be amended to require the contractor to submit a certified annual statement of his operations to be used by the Survey in making its determination of royalty due the Tribe. In addition, previous royalties paid by the contractor should be reviewed and, if necessary, the contractor should be billed in accordance with the contract provisions. Since completion of our field audit work, the Area Director informed us that, as a result of the Geological Survey's review of the contract, additional royalty will be due the Tribe for 1952, 1953, and probably 1954.

21. Tribal lands not leased

The Nez Perce Tribe of Northern Idaho is leasing only 18 of 72 available plots of tribal lands.

The manager of the Nez Perce Tribal Lease Management Enterprise informed us that he had been instructed to lease lands only for periods of a year or more and that there is little demand for leases on this basis. He further stated that a greater demand did exist for leases for periods of less than 1 year.

Subchapter Q of title 25, Code of Federal Regulations, which covers leases and permits on restricted Indian lands does not contain any requirement that would preclude the leasing of these lands for less than 1 year. Furthermore, the area office range conservationist informed us that no area office policy is in effect which

would place such a limitation on the duration of a lease. To obtain greater use of the Nez Perce Tribal lands and more revenue to the Indians concerned, we recommend that the Area Director inform the Northern Idaho Agency superintendent that lands can be leased for periods of less than a year. We recommend also that the Area Director provide for a periodic review of agency policies and procedures relating to the management of Indian lands to assure that these policies and procedures are reasonable and are applied effectively.

22. Use of Government vehicles

The Indian Affairs Manual (vol. IV, part III, sec. 209.03C(1)) covering use of Government-owned vehicles provides that an adequate trip record shall be maintained. In our review of the operator's records, forms DI-120, maintained by agency offices for vehicles assigned to them, we noted that speedometer readings were only recorded monthly. To provide management with adequate administrative procedures to insure that Government vehicles are used for official business only and to comply with administrative regulations, we recommend that the Area Director instruct the agency offices to record each trip on the operator's record maintained for each Government vehicle.

23. Reports on occupancy of Government-owned quarters not made

At the Northern Idaho Agency we noted that written notification is not furnished to the area billing clerk when Government-owned quarters are occupied or vacated by individuals not employed by the Bureau. At this agency we found that employees of the

tribal lease management enterprise and the Public Health Service were occupying Government quarters. The area finance officer told us that no procedures were in force requiring a written notification of assignment to and termination of quarters by individuals not employed by the Bureau. We believe that such a procedure is necessary to provide for prompt and accurate billings for rent for occupancy of Government-owned quarters. We recommend, therefore, that the area office establish a procedure which will provide a written notification, properly approved, to be furnished to the area billing clerk before the assignment or termination of occupancy of Government quarters. In our opinion, the failure to bill promptly for occupancy of Government quarters has been a major factor in sizable rental amounts remaining uncollected. In July 1954 about \$538 was due from one former tribal employee and \$150 was due from the present secretary of the Nez Perce Tribe. Both accounts had been delinquent for more than 6 months.

24. Transportation requests not properly accounted for

Tests on use of transportation requests disclosed two voided requests that had not been accounted for as required by paragraph 11 of General Regulation 108, supplement No. 1, dated July 3, 1950. Further investigation disclosed that accountability had not ever been established in the area office for transportation requests in accordance with paragraph 4, General Regulation 108, dated November 21, 1946.

To establish the required controls over transportation requests and to comply with applicable regulations, we recommend

that the Area Director take the necessary action to insure that an inventory be made of issued transportation requests and a complete accountability record thereof be established.

25. Deficiencies relating to accounts receivable

In our review of accounts receivable we found a large number of delinquent accounts and that aggressive action was not being taken to collect them. At the Fort Hall Agency accounts receivable for irrigation operation and maintenance charges on non-Indian lands in the ceded area adjacent to the reservation at April 30, 1954, were \$44,833. Of this amount \$7,106 was billed before the 1954 irrigation season and represented assessments made as long ago as 1924.

In our review of the several types of accounts receivable at the Colville Agency, we found that \$14,900, or 91 percent, of the total receivables were over 1 year old and that many of these delinquent accounts were billed before 1945. At the Northern Idaho Agency, delinquent receivables for rent of Government quarters amounted to \$1,629 in July 1954, including several rentals for periods in 1949, 1950, and 1951.

The review disclosed also that accounts receivable were not being aged by all agency offices, and that adequate action has not been taken by the area office to transfer uncollectible accounts in accordance with the provisions of General Regulations 120.

The need for a more vigorous collection program was discussed with the area finance officer who advised us that he was aware of the problem and proposed taking action to collect delinquent

accounts and transfer to the central office those considered to be uncollectible. Accordingly, in order to strengthen present procedures, we recommend that the Area Director adopt the following procedures in the Portland area:

- a. Require agency offices to analyze and age their accounts receivable quarterly and report to the area office the actions taken to collect each account over 6 months old. Accounts determined to be uncollectible should be transferred to the central office in accordance with applicable regulations.
- b. Have representatives of the area office review these reports and take action to install a vigorous collection program at agencies where excessive delinquent accounts or evidences of poor collection procedures are found to exist.
- c. Make lists of non-Indian water users who are delinquent in the payment of irrigation operation and maintenance assessments available to irrigation project engineers so that steps may be taken to cut off the flow of water to the delinquent water users' land until the assessments are paid.

26. Inadequate procedures for withdrawals from individual Indian money accounts

The Indian Affairs Manual (vol. IV, part II, sec. 603.03E (19)(b)(i)) and Portland area memorandum dated December 21, 1953, provide that an Individual Indian Accounts Application, Form 5-139b, be executed before any withdrawals from an individual account. These instructions do not provide, however, for a verification or identification of payees' signatures appearing on the forms 5-139b. Furthermore, the instructions provide for blanket authorizations which cover several withdrawals, without the use of any type of withdrawal request, for Indians whose funds do not require supervision.

We do not believe that these procedures provide adequate management controls over withdrawals because payees are not identified.

Accordingly, we recommend that the Area Director institute the following procedures:

- a. A form 5-139b be properly executed for each payment made from an individual Indian money account, except that the agency superintendent's approval may be omitted when a blanket authorization has been given by him.
- b. A bona fide signature of each individual having an account be maintained on file for verification with signatures appearing on the withdrawal requests.
- c. The signature mark on withdrawals of a payee who is unable to write be witnessed by an individual who knows the payee, except that Bureau employees directly concerned with accounting for individual Indian moneys should not act as witnesses.

We recommend also that the Commissioner of Indian Affairs consider closing out the accounts of all Indians whose funds do not require supervision, and suggest to such Indians that the facilities of privately owned commercial banks be used. This would enable the Indians to handle their own monetary problems and would be a step in the direction of eventual withdrawal of supervision by the Federal Government over Indians.

27. Inactive individual Indian money and special deposit accounts not closed

Portland area letter dated July 28, 1953, was issued in accordance with Accounting Systems Memorandum No. 28 dated June 26, 1953, and provides that agencies analyze their individual Indian money and special deposit accounts at least quarterly for the purpose of determining unclaimed balances which may be properly refunded or disbursed to the individual. This letter provides also that accounts over 1 year old generally will be retained in the records only when active.

In our review of the IIM accounts at the Northern Idaho Agency, we found that 28 of the 230 individual accounts as of June 30, 1954, had not been active for the past 12 months. Further review disclosed that the required analysis of accounts had not been made. We noted that several accounts were open because the addresses of the owners were unknown and others were held open for subsequent recovery of probate fees due to the Government. At the Colville Agency about 55 percent of the 150 special deposit accounts examined were found to be inactive. These inactive accounts amounted to more than \$7,200.

The area finance officer advised us that a program is being initiated in which special emphasis is to be placed upon clearing inactive IIM and special deposit accounts. He advised us also that the area office letter of July 28, 1953, would be incorporated as an area supplement to the Indian Affairs Manual.

In addition to the corrective action to be taken by the area finance officer, we recommend that the following specific steps be initiated by the Area Director to reduce the number of inactive individual Indian accounts.

a. Funds on deposit to the credit of those Indians who are delinquent in the payment of probate fees should be offset against the probate receivable, and subsequent credits applicable to such Indians should be credited directly to the receivable account rather than to the individual Indian money account until the full amount is collected.

b. A concerted effort should be made to locate those Indians whose addresses are not known, and, if after a reasonable length

of time the Indian cannot be located, his account should be closed out in accordance with Accounting Systems Memorandum No. 28.

28. Miscellaneous deficiencies in individual Indian money accounts

In our review at the Fort Hall Agency performed in May 1954, we found that Account 2224.2, Special Deposits, Undistributed Interest, had not been distributed to the IIM accounts since November 17, 1952. The Indian Affairs Manual (vol. IV, part II, sec. 1004.01) provides that the interest accumulated in account 2224.2 applicable to IIM accounts shall be distributed on December 31 and June 30 of each year. At the Colville Agency we found that expense statements and Individual Indian Account Applications, Form 5-139b, were not filed in individual account jackets as required by the Indian Affairs Manual (vol. IV, part II, sec. 603.03E (19)(b)(i)).

These failures to comply with manual instructions were discussed with the area finance officer who advised us that corrective action would be taken.

29. Inconsistency in budgeting funds for storage reservoirs

Funds for the annual payment of \$20,000 to the Bureau of Reclamation, authorized by the act of July 1, 1940 (54 Stat. 707), to reimburse that agency for the construction cost of storage reservoirs to provide additional water to the Wapato Project, are requested and provided in the appropriation for resources management, Bureau of Indian Affairs. The 1954 and 1955 fiscal year payments were made from that appropriation. The payments, however, are classified in the accounts of the Portland area as a construction cost. Funds for a similar item of the Fort Belknap, Montana,

Project are requested in the Department of the Interior estimates under the construction appropriation.

Portland area officials agreed that the present classification of the Wapato Project item in the resources management section of the budget is not consistent with the ultimate accounting classification of the expenditure. Accordingly, we recommend that the Bureau request funds for this item under the construction appropriation in future estimates.

30. Discrepancies in employees' bonds

The Indian Affairs Manual (vol. IV, part II, sec. 201.04D and sec. 206.01) designates the Area Director as the accountable officer for Government property and requires that the accountable property officer be bonded to the Government. The Area Director, however, has not been bonded.

Other discrepancies noted in our review of employees' bonds are:

- a. Some of the bonds of agency office employees were not issued bonding the employee to the present agency superintendent.
- b. Some bond premiums were not paid until 2 months or more after the due date.
- c. Bonds had not been executed for five persons who are required to be bonded in accordance with existing area office policy. The following are the positions not bonded: assistant area finance officer, area health officer, area social worker, area law and order officer, and the fiscal clerk designated to distribute payroll checks.
- d. Some employees' bonds were not in the area office file as required by area office policy.
- e. One bond in the area office file was not signed by either the principal or surety. Signatures of the principals on other bonds were not properly witnessed.

- f. The area office file did not contain premium receipts or current bonds for all employees required to be bonded.

These deficiencies were brought to the attention of the Area Director and corrective action is to be taken. We were informed that a more efficient system for follow-up on the due dates of bonds has been established.